



## Internal Revenue Service Criminal Investigation

# Tax Fraud Alert

## Gaming

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IRS Keyword: Fraud

Fiscal Year 2004

**Overview**

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Criminal Investigation (CI) has had an active gaming program since 1994 when there was a significant surge in legalized gambling. The legalization and popularity of gaming continues to grow and is currently legal in some form in all but three states; Hawaii, Tennessee and Utah. Christiansen Capital Advisors LLC (CCA) claims that approximately \$823 billion was wagered in all forms of legal gambling in the United States in 2000. This amount is up from \$769 billion in 1999. This money is more than was spent on movie tickets, recorded music, theme parks, spectator sports, and video games combined. Further CCA estimates that there are over 1,400 Internet gambling websites, which generated over \$2.2 billion in revenue in 2000 and they expect revenues to top \$6 billion by 2004. Criminal Investigation focuses attention on the gaming industry through the enforcement of tax, money laundering, and other related financial criminal statutes within CI's jurisdiction.

Illegal gaming operations, including bookmaking, numbers, Internet and some charitable gaming operations, continue to be areas of compliance concern. Criminal Investigation continues to play an enforcement role in the illegal gaming industry and to support regulatory and legislative initiatives aimed at eliminating an environment conducive to illegal gambling.

Criminal Investigation's gaming program consists of a two faceted proactive approach to industry compliance. The first facet is the investigation of entities suspected of violating tax or money laundering laws. The second facet is liaison activities with federal, state, and tribal gaming boards, licensing commissions, industry regulators, gaming operators, gaming industry suppliers, and law enforcement. Criminal Investigation's activities includes: Reviewing Casino Suspicious Activity Reports and Currency Transaction Reports, participation in writing state gaming laws and regulations, assisting in licensing activities and making presentations at major industry conferences. A critical component of both facets is CI's coordination with the civil functions of the IRS in addressing trends and concerns in the gaming industry.

Criminal Investigation is currently leading a cross-functional working group looking into the compliance challenges presented by the expanding worldwide Internet gaming industry. This working group is still in the early stages.

### Statistical Data

#### How to Interpret Criminal Investigation Data

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.

	FY 2004	FY 2003	FY 2002
Criminal Investigations Initiated	51	62	87
Prosecution Recommendations	43	61	42
Indictments/Informations	48	61	47
Sentenced	73	39	64

Incarceration Rate*	67.1%	74.4%	68.8%
Average Months to Serve	19	11	13

\*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

### **Examples of Gaming Investigations**

The following examples of gaming fraud investigations are excerpts from public record documents on file in the court records in the judicial district in which the cases were prosecuted.

#### **Bookmaker Sentenced to Prison for Failing to Pay Wagering Excise Taxes**

On August 24, 2004, in Houston, TX, Louis Sager Hunsucker, Jr. was sentenced to three years in federal prison without parole after his May conviction of evading payment of approximately \$50,000 in wagering excise tax. Hunsucker admitted to having been a part owner of an illegal bookmaking business between August 1997 and June 1998, which he operated from his residence. He and others were involved in accepting bets on sporting events. Hunsucker charged a standard 10% commission or "juice" on straight losing bets. Wages were recorded on plain notebook paper and codes were used to conceal the identity of the player/bettor. The bettors usually paid their gambling losses in cash or money orders. In December 1997, Hunsucker accepted gross wagers of approximately \$1,351,294 with a corresponding wagering excise tax liability of approximately \$27,025. In January 1998, Hunsucker accepted gross wagers of approximately \$1,219,250 with a corresponding wagering excise tax liability of approximately \$24,385. Hunsucker did not file a monthly wagering excise tax form with the IRS as required, nor did he pay any portion of his wagering excise tax liability.

#### **Gambler Sentenced for Interfering with the Administration of the Internal Revenue Code**

On May 27, 2004, in Cleveland, OH, Joseph V. Costa was sentenced to 2 years imprisonment followed by 3 years supervised release for illegal gambling and for interfering with the administration of the Internal Revenue Code. In addition, the judge ordered Costa to cooperate with the IRS in determining the federal income taxes and wagering excise taxes owed by him for the years 1997 through 2002, and to pay whatever is determined to be due and owing to the IRS. According to his plea agreement, Costa admitted that he dealt extensively in cash, and settled his gambling accounts in cash. He brought cash to banks and purchased money orders and cashier's checks in order to pay routine personal and family expenses. Costa acknowledged that he operated and arranged his financial and business affairs in cash in an effort to frustrate and defeat any collection of his past due income and wagering excise tax liabilities, and to prevent any determination of tax liabilities on his current activities.

#### **New York Racing Association Indictment and Deferred Prosecution**

On December 11, 2003, two former directors of the Pari-mutuel department and four former pari-mutuel tellers were charged in a multi-million dollar scheme to defraud the United States. The indictment charges the six with participating in a scheme that enabled pari-mutuel employees to falsely deduct from their federal and state taxable income millions of dollars for purported unreimbursed employee expenses. In addition, a former director of NYRA was charged with making illegal payments to a union official. In a separate document filed in U.S. District Court in Central Islip, New York, NYRA accepted responsibility for its conduct and agreed to cooperate fully with the government's continuing investigation.

To date, 24 individuals have been charged with federal crimes in connection with this scheme, 17 of which have previously entered guilty pleas.

### **Westfield Man Sentenced on Illegal Gaming Charge**

On November 25, 2003, in Springfield, MA, Anthony Delevo was sentenced to three years in prison, followed by five years and six months supervised release and ordered to pay a \$100,000 fine. Delevo pleaded guilty to racketeering and money laundering in June 2003. Delevo is one of fifteen individuals charged in an illegal gambling and loan sharking conspiracy.

### **West Roxbury Man Sentenced to Federal Prison for Laundering Bookmaking Proceeds**

On August 12, 2002, in Boston, MA, Edward J. Cronin, was sentenced to 18 months in prison, followed by two years of supervised release, fined \$6,000 and an order to forfeiture of approximately \$260,000. Cronin pleaded guilty to one hundred counts of money laundering intended to conceal and promote illegal gambling activity. Cronin operated an unlicensed check-cashing operation from 1995 through 1999. In exchange for fees, Cronin cashed hundreds of thousands of dollars in checks for at least five separate bookmaking businesses. Many of the checks were made out to fictitious payees and to persons other than the bearers of the checks. Cronin earned income by lending tens of thousands of dollars in cash to bookmakers and their customers in exchange for usurious weekly interest payments.

### **Man Sentenced for Ten-Percenting at the Meadowlands Racetrack**

On June 17, 2003, in Newark, NJ, Esau James was sentenced to twelve months and one day in prison for knowingly and willfully making and subscribing to statements and documents, namely more than 100 Forms W-2G, made under penalties of perjury, which he did not believe to be true and correct as to every material matter. James admitted having cashed winning horse racing tickets for individuals other than himself at the Meadowlands Racetrack. James stipulated that the tax loss associated with the winning tickets he cashed for others totaled over \$200,000. This practice is commonly referred to as "ten-percenting." The person cashing the winning tickets for other individuals would typically receive ten percent of the value of the winning ticket as a fee. Such a scheme conceals the true identities of actual winning ticket holders and may thwart IRS efforts to properly tax the gambling winnings.

For more summaries, visit [www.irs.gov](http://www.irs.gov) and enter Keyword: Fraud.

### **Where Do You Report Suspected Tax Fraud Activity?**

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal revenue service office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.